

ENRON CORPORATION

Moderator: Jeff Skilling
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Operator: Good morning, everyone, and welcome to the Enron second quarter earnings release conference call.

This call is being recorded.

At this time, I would like to turn the call over to the President and Chief Executive Office, Mr. Jeff Skilling. Please go ahead, sir.

Jeff Skilling: Thank you very much. This is Jeff Skilling, President and CEO of Enron Corp. With me here in Houston I have Mark Koenig, who is Executive Vice President of Investor Relations; Paula Reiker, who is Managing Director of Investor of Relations; Rick Causey, who is our Executive VP and Chief Accounting Officer; and Steve Kean, who is our Executive VP and Chief of Staff, and has been very active in the regulatory proceedings that have been going on around the world over the last couple of months.

But thank you very much for joining us on the call and on the Web broadcast this morning. Earlier this - earlier today we reported our second quarter results. What I'll do is provide a brief overview of our quarterly results and then open the call for your questions.

For the second quarter of 2001, Enron reported outstanding results, including a 40 percent increase in net income to \$404 million - that's versus \$289 million a year ago and a 32 percent increase in diluted earnings per share to 45 cents compared to 34 cents a year ago.

As the numbers show, Enron's energy business fundamentals are excellent. Today, we're also announcing our confidence in achieving recurring earnings per diluted share for the full year 2001 of \$1.80 and \$2.15 per diluted share for 2002. So we're expressing our confidence, strong confidence in the remainder of this year and next year, just given the business prospects that we see on the horizon.

Let me go through each of the individual businesses, starting first with our wholesale services business. Wholesale services, which is our largest operation, has lead the company's growth for the past decade. Total income before interest, minority interest, and taxes, which is IBIT, for the quarter increased 93 percent to \$802 million from \$415 million a year ago, marking wholesale services 22nd consecutive period of year over year quarterly earnings growth. These earnings are primarily attributable to Enron's leading role worldwide in our commodity sales and service business where we market and deliver energy and other commodities to customers.

Second quarter IBIT for the commodity business increased 81 percent to \$762 million in the second quarter. Total volumes, which is the key, which is what drives the profitability in this business, increased 58 percent to 74 BCF equivalents per day. And that's versus 47 BCF equivalents a day a year ago.

Natural gas volumes increased 21 percent to 32 BCF per day versus 27 BCF a day a year ago. And power volumes increased 108 percent to 285 million megawatt hours, and that's versus 137 million megawatt hours a year ago.

And in all of our new businesses - leather, metals, lumber, and steel - volumes doubled or more in comparison to a year ago. So very, very strong performance in all sectors of the wholesale business.

Let me go through some of the geographic breakouts. In North America, energy volumes increased 32 percent in the quarter to 48.4 BCF a day equivalent, which is comprised of 52 percent gas now and 48 percent power. So we're getting real close to the point where power overtakes gas in total volumes in the company.

The overall increase is a direct result in our leading role in expanding liquidity at all major physical locations. Enron continues to be the most reliable provider of gas and power-related services to customers all over the continent.

In addition, Enron Online has allowed us to show our price competitiveness more broadly and an increasing number of customers are now able to transact in larger volumes with us more quickly and efficiently. And interestingly, we continue to set new record volumes and transactions on Enron Online. So the Enron Online activity continues to grow significantly.

In terms of volumes, for example, in the northeastern U.S., our physical power deliveries have increased over 150 percent from a year ago. This equates to about 50 million megawatt hours. We are not a large generator. But our insight into the gas and power markets enables us to actively participant - participate in the development of power generation.

In the second quarter, we sold three peaker plants totaling about 1,710 megawatts, which had previously directly supported our commodity sales contracts. In a market with little liquidity, these plants have quite simply been substitutes for contractual supplies because the plants have been integral to our commodity business the plants earnings are recognized within our commodity sales and services segment just as those related to contracts providing similar supply functions are reflected. Earnings for the plants also offset costs associated with unwinding associated contract sales commitments.

With the enormous access to liquidity created by the success of Enron Online, we can support our sales commitments with market-based contracts and free up capital associated with asset ownership. So just a great transaction for us and a continuation in the move toward our strategy of supplying customers with a minimum amount of capital tied up to do that. So North America, just an outstanding quarter, another outstanding quarter.

Let me move to Europe. The European markets continue to show strong, strong growth. Total volumes in Europe increased 205 percent to 15.3 BCF a day equivalent. That's up from five BCF a day equivalent last year. Natural gas volumes were up 103 percent, and our European power volumes were up 463 percent from a year ago. In Europe now we're doing 73 million megawatt hours a quarter. That's up from 13 million megawatt hours a year ago. This continues to show the building of liquidity, and we continue to build liquidity at key hubs on the continent, and we continue to expand the franchise in Europe, and I look for great things from Europe in the future.

I want to give you a little more information on Enron Online. We're seeing increased activity across the company with an almost 200 percent increase in the transaction count in the second quarter relative to a year ago. Enron Online continues

to play an important role in our business expansion and accounts for about 60 percent of our total transactions across the company.

The 40 percent not transacted online reflect both our longer dated structured transactions that will always require some commercial negotiation, as well as opportunities to migrate to the online platform. Since inception now in November of 1999, we have conducted over \$685 billion of total gross transaction value on Enron Online. Enron Online has added tremendous scale to our wholesale business, integrating our core strengths and credit risk management and logistics.

In addition, we recently announced that Enron Online would list real time price quotes on Reuters. This increases the value of Enron Online to our customers that they utilize this tool for historical analytics and direct pricing comparison to other online services. So Enron Online continues to be a significant part of our business and a real success for the company.

The other sector that we report in, in our wholesale services business is assets and investments. Assets and investments for the quarter reported an IBIT of 134 million for the second quarter, and that's compared to \$55 million last year. The increase in earnings from last year is primarily due to increased valuation and sales of Enron's investments from our investment portfolio.

Overall, wholesale business, just another outstanding quarter. Excellent quarter. We are well positioned and see continued strong growth from this business.

Let me turn now to our retail business. Retail Energy Services, Enron Energy Services. We had an outstanding second quarter, with an IBIT increasing by 30 percent to \$60 million. We continue to experience demand for our retail products and are expanding our market share at a very rapid pace as we are now currently the only nationwide provider of energy management services, and increasingly offering international services as well.

Contracting is accelerating. We had an 89 percent increase in the current quarter of activity, \$7.2 billion of new contracts. We have very successfully penetrated key customer segments with our outsource product, including new contracts with Harrahs, Park Place Entertainment, and several nationwide home improvement chains, and a large retail food market chain in Europe. In total, we added over 4,400 facilities to our service portfolio during the quarter for a total of 35,700

facilities under management. And Enron is now the largest manager of customer energy assets, with more than 3.5 billion square feet of facilities under management. Enron Energy Services is continuing to scale its business with shorter sales cycles and standardized products. The business is poised to expand rapidly with commensurate increases in profitability. We are firmly on track to achieve our 2001 target of \$225 million of IBIT in our retail business. So retail business, a great, great quarter as well.

Let me move to transportation and distribution. The transportation and distribution business is comprised of Enron Transportation Services, which is basically our interstate gas pipelines, and Portland General Electric. Both businesses reported solid earnings in the second quarter. Enron Transportation Services reported an IBIT of \$77 million, which is comparable to last year's results. The business continues to experience strong demands for our natural gas pipeline services.

A pipeline expansion project was recently completed in Florida that added 200 million cubic feet a day of new capacity in this fast growing area. And we have another 425 million cubic feet a day expansion underway. A 150 million cubic feet a day expansion - capacity expansion on Transwestern to California will be completed in 2002. So the pipeline's doing great.

Portland General reported an IBIT of 65 million in the recent quarter compared to 62 million of the second quarter of 2000. Portland General serves one of the fastest growing areas in the U.S. They have over 2,000 megawatts of owned generation and they have consistently maintained a balance of supply and demand through wholesale contracts ((inaudible)) needs and have provided very cost-effective power in the western grid for their customers. That's the transportation and distribution business.

Let me move now to broadband services. Broadband services reported a \$102 million IBIT loss in the second quarter compared to a loss of \$8 million a year ago. This quarter's loss reflects significantly lower revenues but comparable operating expenses as you compare it to the prior period. Industry conditions in the broadband area are very weak, to say the least. Luckily, Enron's asset light strategy allows us to significantly reduce cost to be more in line with the revenue opportunities that are in the industry. Our focus going forward will be in the intermediation area, but we will continue to build value for our shareholders associated with network services and content businesses.

Let me talk about these areas. In bandwidth intermediation, we're making good progress; continued good progress in creating a market for bandwidth. We've completed over 759 transactions in the second quarter, which was a 31 percent increase over the first quarter - over the first quarter of this year. We also increased our customer base during the quarter with the addition of 45 new customers for a total of 165 customers. Carriers and network service providers represented over 70 percent of our customer and about a third of this quarter's transactions.

As we mentioned in the release, we have a new long-term contract to provide broadband services to MSN. Enron is combining our intermediation expertise and our network capabilities to provide MSN with bandwidth on demand. Our service enables MSN to dynamically provision and pay for bandwidth as they need it. We will provide more information along with MSN at a later date, and Enron will demonstrate the financial impact of the new contract as the service is implemented.

So those are the business areas. One other comment on corporate and other. The corporate and other we reported an IBIT loss of 109 million for the quarter. This basically includes higher unallocated corporate-wide expenses and the impact of Azurix and other non-core operating businesses.

Overall, though, great quarter. Second quarter results are outstanding. Business fundamentals remain strong. Our new business are expanding and adding to our earnings power and valuation, and we are well positioned for future growth. So, great quarter.

Let me open it now for any comments and questions from the - from the phone.

Operator: Thank you. If you would like to ask a question today, please press the star key, followed by the digit one on your touch-tone telephone. We will proceed in the order that you signal, and we will take as many questions as time permits. Once again, to ask a question today, please press star, one, now.

And we'll pause for a moment to assemble the roster.

And our first question today will come from Jeff Dietert with Simmons.

Jeff Dietert: Good morning. Your wholesale and retail businesses are obviously hitting on all cylinders. Could you give us a little bit more insight into your European business? The volumes have grown significantly. Can you talk a little bit about how the gross margins compare to those you're seeing in North America?

Jeff Skilling: Sure, Jeff. One big factor this year has been the new energy trading arrangements that were recently approved in the U.K. It's led to a much more open marketplace that is more of a bilateral marketplace, which is the type of market that we obviously encourage the development of. And it just fits our strengths quite a bit better so that the development of the new energy trading arrangements in the U.K. have really lead to an increase.

But in addition, on the Continent, it's surprising how quickly this thing is opening up and how much the volumes are up. But this, I think, points out something, I would like to make one point that I think is very important. It relates to Europe, and also relates to the United States. Again, our growth is driven by the growth in physical volumes delivered to our customers. That growth is dependent not so much on overall economic activity, so economic activity in Europe and in the U.S. is pretty soft, but what drives that growth for us is the increase in the portion of the business that is non-regulated. It's the only portion of the business where we compete.

So as the markets transition from regulated to non-regulated, we show very, very strong growth and you are seeing that in Europe and that's what drives those volumes. We've just started down the path in Europe.

But I would like to just point out, in the United States, which obviously is our biggest market, we had a major, major improvement in the prospects for the business with the announcement yesterday by the FERC that they are going to mandate the development of four regional transmission organizations in North America.

Now, we've been pushing very hard for this. The market at the wholesale level is not particularly efficient. These new rules, these new RTO rules, will open up the North American market to what we believe is likely to be very full, very active competition. It's going to benefit consumers, and it's going to benefit the type of business that Enron does on the grid. So all of the signs or all the - all the lights are green right now in Europe and North America for significant additional transition from the old regulated model to the new non-regulated model. So we're feeling very good about continued growth prospects for

gas and electricity in both areas.

Jeff Dietert: Are you seeing a change in the - you talked about bilateral contracts. Are you seeing a change in the length of the term that customers are interested in participating in? Is there a change from shorter-term to longer-term structure type transactions, or is it similar to what it's been historically?

Jeff Skilling: Yeah. In the U.K. historically, any type of term structure had to be conducted as a separate contract or as something they called a contract for differences, which was kind of a strange animal that was created along with the power pool over there. By moving to bilateral - a bilateral market structure, we can conduct our business as a - as a just, you know, willing buyers and sellers coming together and doing transactions.

So I would imagine that that will significantly shift things toward longer term, more complex transactions as time goes on. That hasn't really happened yet. Everyone's trying to get comfortable with the structure of the market over there but, that's where I would expect it to go. And so, addressing your question about margins in Europe versus the U.S., I would expect that, on a per-unit basis, we're likely to see a higher margin in Europe than we've seen in the U.S. just because the market is less fungible and offers a range for more differentiation of products and services.

Jeff Dietert: Good. Are you - are you seeing a change in North America as well towards more longer term structured transactions relative to what you've experienced in recent quarters?

Jeff Skilling: No, I think - I think in North America it stayed pretty consistent. Again, I think the stuff in California will probably again push us toward longer-term structures, but to date we really haven't seen that. I think the reason is most people perceive or have perceived prices to be pretty high over the last couple of months, and if anything, they've been pushing towards shorter terms in anticipation of the decline in those prices.

Jeff Dietert: Very good. Thank you.

Operator: And our next question today will come from David Fleischer of Goldman Sachs.

David Fleischer: Hi, Jeff. Great quarter there. Clearly there's been a major change in prospects in broadband from what you had hoped for a year and a half ago. The whole market's falling apart and most everybody's recognized this. Can you reset expectations maybe, you know, maybe reset your targets, your goals, expectations here? You know, with this quarter's loss, you know, have you gotten the significant losses behind you, and are there more hits - or are there more hits to get yourself back on a new track here and a...

Jeff Skilling: David, can you hear me?

David Fleischer: I can hear you. You can't hear me?

Jeff Skilling: Well, it was breaking up a little bit. I think I've got the question, which is really related to the prospect for the broadband business. We will be going back and recalculating the whole assumptions about how things are moving forward from here. I will tell you, I mean, this business, it is a - it's unbelievable. I mean, this is a lot like the energy business was in the early '80s. It's like someone turned off a light switch.

Revenues this quarter, revenue opportunities just dried up. People are not contracting, and to the extent they're contracting, prices are extremely, extremely low, and they're taking a long time to decide if they want to do anything. So what we're going to do is we're going to focus on two areas to the exclusion of all others in what we do. And the two areas are going to be the intermediation business and a turnkey package service for enterprises that continue to maintain credit capacity to actually do transactions.

We can do that, and significantly reduce the burn rate, and we'll be getting back to you with more specific details, but we're on track to making a significant decrease in the burn rate from what it was this quarter. And so you'll see that that becomes less and less of an issue. But I do believe that we will be able to maintain the option value of these businesses for the future. These businesses will be important significant businesses for the future. But it's probably a year or two further out than what we expected, and what we're going to do is make sure we have a placeholder in the market, make sure that we have a position in the market and are providing the services like the MSN contract, like our intermediation business, our bandwidth trading business.

And we believe that, a year or two from now, that's going to be a significant contributor of value to the stock. You know, right now our

view is that everything has been taken out of our stock for the bandwidth business. Not only everything, we are probably getting a negative impact on the stock price from our bandwidth business, and that I don't think is right. I think this has significant value for the future, and the key is just going to be we're going to get the burn rate down to where we can keep this thing indefinitely at no real cost to our shareholders.

David Fleischer: I guess that really is the thrust of my question, you know, given the size of the loss this quarter. You know, next quarter, will that loss be down substantially? Have you taken the bulk of the hit right up front in this quarter?

Jeff Skilling: David, at a minimum, it'll be a - we'll - our burn rate will be less than half of what it is today within the next several months.

David Fleischer: OK. And then, separate question, if you could. You talked about the cost of unwinding the contracts back that also had a part of the profits and the peakers, and I was wondering if you could put a little - put perspectives on those numbers for us; what those costs of contract unwindings were, and secondly, you know, if you want to put perspectives on what you - profits you booked on peakers.

Jeff Skilling: Yeah. Let me see if I can address that. Think of - think of two alternatives. One alternative is we go out and we sell power to a customer, and then we back that one of two ways. We either go out and we contractually purchase power to support that agreement, or we build a power plant to support that agreement.

On the day that those two positions are put in place, we have locked in a margin for the future, and then that is done. I mean, we have created value for our shareholders at that time. Now, it turns out that, depending on whether it's an asset or a contract, it looks different from an accounting standpoint, or could look different from an accounting standpoint. Let me give you an example of this, and follow me through on this. I know this is complicated, but I think this is very important.

Let's say the prices for power increase, just increase - you know, I don't know, go up double or something subsequently. Now, in that situation, the value of the sales contract is significantly lower than what it was before. The value of the purchase contract for power is a whole lot higher. Or the value of the sales contract for power is lower, and the value of the asset that supported that sales contract is a whole lot higher.

It doesn't matter. The net margin has been locked in in both cases, and that's the margin that we're creating for our shareholders. When we unwind that, and we do, we end up closing out positions all the time. If we close out the two contract positions, it's irrelevant. It just shows up as a margin. The margin is fixed and the margin goes to our shareholders. You close out the position with the peakers, if the peakers were the - were the construction that supported that contract, you get people saying well, wait a minute, that's an asset sale as opposed to a contract sale. It's identical. It is absolutely identical to a contract unwind. So it's totally a function of whether prices have gone up or down.

Now, prices have gone down since we sold the - since we sold the peakers - well, actually, it's gone up since we built them, so when we built them there's a value that was built into the value of the peakers offset by decline in the value of the sales contracts. It in no way impacted the margin between those two. And so, David, we don't even track that. I can't even tell you what the unwind value was in the sales contract, because it's a whole basket of sales contracts that a, you know, we're entering into them or exiting them. But what we do track is the margin on a day-to-day basis, and the margin is what you see showing up in the income statement.

David Fleischer: OK, great. Thank you very much. Great quarter.

Jeff Skilling: Thanks David.

Operator: And now we'll move on to Carl Kirst of Merrill Lynch.

Carl Kirst: Hey. Good morning, everyone, and great quarter as well. Jeff, couple of sort of 30,000-foot questions. I'm glad you brought up the FERC decision, because I kind of wanted to get your, your, impression of when you think we might see a significant impact from the RTOs being created, if you will. You know, when are we going really start seeing the ramp - you know, the exponential ramp to the non-regulated volumes? Is that two years out, three years out?

Jeff Skilling: Under the first order, the requirement is to put in place a plan for implementation in the year 2003. So I think you'll start seeing those going into effect. There's a period of time they have to put all the mechanics in place. So in 2003, that mechanism will be in place. So I'm guessing that, as we get closer to it, certain changes will be made that will allow additional

volumes to flow. But I think the bulk of the value will start showing up in the year 2003-2004.

Carl Kirst: OK. And then, I guess, maybe somewhat analogous on the broadband side, I'm looking to, you know, see if you can place the development of the broadband in a timing perspective, i.e., are we basically back in 1995 with the power situation, or are we back in, like, 1990 with the power situation? I mean, how long do you really think it's going to take to get a developed market? I know you were talking about you think expectations have been pushed off a year or so, but I'm more trying to think of a developed mature broadband market in that terms, it you will.

Jeff Skilling: Yeah. I - my expectations is it's been pushed off by at least a year. This is not '95 in power. I don't think it's '90 either. But it's probably more like '92 or '93. I mean, Carl, there's a meltdown out there, and the problem that you have that we didn't have in the electricity business or the gas business when we were developing it, and this problem has just recently occurred, is there are not credit-worthy counter parties in the business.

I mean, there are some, but you really have to move outside of the traditional carriers right now, because they're all hurting. And because of that, that is going to slow the development of the market.

Now, we're seeing transactions volumes up significantly, but it tends to be very short-term transactions because people don't have the credit capacity to do long-term transactions. So I think, you know, this might be the electricity market in 1992 and 1993.

Carl Kirst: Right. Take care. Thanks.

Operator: Now we'll move on to Kurt Launer of CS First Boston.

Kurt Launer: Good morning. I just want to follow-up on the RTO developments and ask it in the terms that we've talked about in the past - market sizes, access to open markets, and things like this. You spoke a little bit about what kinds of things this allows you to do that you couldn't do before, but if you could elaborate on the addressable market that's created by this development, I'd appreciate that.

Jeff Skilling: Sure, Kurt. Let me ask Steve Kean to address that. Steve has been actively involved in getting this stuff done,

and Steve, what do you think?

Steve Kean: Well I think, you know, we've kind of looked at the wholesale market with the existing regime as being, you know, about 20 to 25 percent open ((inaudible)) electricity market. What this is going to push for is something close to 100 percent. We still need to see how they're going to deal with - deal with public power as part of this. But it's going to be a significant, significant expansion of the addressable market into, you know, 80, 90 percent levels within a relatively short period of time.

And there's another element to this too, and that is that they appear to be eliminating the pancaking of rates within the RTO systems, and what that means is we're going to have, you know, hundreds of potential supply sources that we're going to be able to put in touch with thousands of markets. And so it's even more significant than just simply getting open access tariffs across the individual utility systems. We're going to be able to move power from where it is to where it's needed.

It's also going to facilitate dramatically the development of retail markets, because as we get more workably competitive wholesale markets, it's going to increase our ability to deliver away from traditional cooling points and serve retail energy markets as well. So it's a huge step forward and a dramatic increase, a multiple increase in the addressable market.

Jeff Skilling: And Kurt, to put that in perspective, I want to emphasize two points. First one is the massive increase in the addressable market at the wholesale level, and I think Steve's about right. You know, maybe from 20 percent - let's not say 100 percent, because it's never 100 percent, but say from 20 percent to 90 or 95 percent of the market will be open by the - you know, within the next two or three years. So that's one thing. That is a big, big factor.

But the second point I'd like to make, which I'm not sure people fully recognize today, is the impact it's going to have on our retail business. As I mentioned earlier, we're serving 30,000 something sites. We probably can physically get power to only about 20 percent of those locations, just given the constrictions and the grids and the difficulty moving across the grids.

This will make it much, much easier to get power much further out than the market centers where we've been operating today. And I don't know if that'll move us from that number to 50 or 60 percent; it may move it even further than that. But this significantly facilitates the opening of the retail market and access to open - markets that are already open at the retail level. So for EES I think this has - will have some pretty dramatic consequences as well.

Kurt Launer: OK. Sounds great. If I can just follow-on with one question relative to any kind of visibility of rates you might say - I mean, we're familiar in the pipeline business, we know what the transportation costs are from certain places to Henry Hub and so forth. Is there going to be some way we're going to be able to gauge that to begin to look at margins and power trays on a more consistent basis than we have been able to in the past?

Steve Kean: Well, I don't - this is Steve again. I don't know how to translate it necessarily into the visibility or transparency on margins. But certainly I think you're going to see increased transparency in the cost of transmission. You can already observe that in the TJM market, for example, which is going to be the platform that the northeast market RTO is going to be based on. So you're definitely going to be seeing an increase in the - in the transparency, the visibility of what actual transmission costs are, and basis differentials between those different markets.

Kurt Launer: OK, great. Thank you.

Jeff Skilling: Thanks, Kurt.

Operator: Our next question today will come from Carol Coale of Prudential Securities.

Carol Coale: Oh, hi. Good morning. This is Carol Coale. With the -just focusing on the regulatory issues in the west and El Paso's exposure on the gas situation, you know, as I understand it the FERC administrative law judge is also investigating gas market power issues in Southern California and investigating the other gas suppliers.

And you being the owner of the transwestern pipeline, which parallels the El Paso National Gas Pipeline, I was just wondering if you had any exposure under the FERC investigations that we should be aware of as far as delivery of gas and cornering the market in southern California. That's my first question.

And my second question is as a reminder, did you record the sale of the Houston Pipeline and the Bammel Storage Facility in the second quarter as well, or was that a first quarter event? I just - I can't remember.

Jeff Skilling: Carol, I'll just get the second first. It was in the second quarter, and it was about break even, so it had no effect whatsoever. Let me turn it over to Steve to address the market - or the gas market issues in California.

Steve Kean: Yeah. You're right. I mean, they're going to be looking at and they're going to be looking at what happened in gas markets in the west, and they're going to be looking at all the players. Our approach, though, is pretty fundamentally different from a lot of other pipelines. I mean, there area lot of pipelines whose merchant activities are really focused on their own pipeline and that's not really the case with us.

A lot of the discussion that's going around and around with the El Paso situation has to do with the fact that the merchant on with El Paso held a significant amount of the transmission capacity on the El Paso system. Now, I've got no real comment on the merits of the investigation that they're undertaking there. But it's really a fundamental and different situation from what we find ourselves in on the transwestern system, or really on any of our pipeline systems around the country.

Carol Coale: OK. And separately, but possibly relatedly, did you monetize any assets or have any use of your MLT affiliate, the - I think it's called LJM Cayman during the quarter that was material?

Jeff Skilling: Yeah. Carol, I think that - I think there was a couple of real minor things that were just related to transactions that had been done earlier. There are no new transaction in LJM.

Carol Coale: OK. All right. Well, thank you very much, gentlemen.

Jeff Skilling: Thank you, Carol.

Operator: And now we'll move on to Leslie Rich of Evergreen Investments.

Leslie Rich: Yes, I'm looking at the wholesale volumes of Portland General and they were down 38 percent. I wondered if you had any insight into why that - what might have been behind that. And also trying to get a handle on what additional expenses for Azurix might be turning up for the remainder of the year.

Jeff Skilling: I'm sorry, could you give me the second one again?

Leslie Rich: Azurix, in corporate and other, just wondering how much more is likely to come.

Jeff Skilling: Well, I think in the corporate and other what I think what you're seeing now is probably what you're going to see. I mean, that -the Azurix numbers were about a quarter of that, and they'll be continuing at that kind of level going forward in time.

On Portland General, Portland General's wholesale activities are really - it's really a procurement and a disposal service. What they do is they project their demand for regulated services - regulated demand and then they purchase to meet that demand. If it turns out demand is lower than that then they're reselling some of that power onto the grid. So it's really just a function of what their load is relative to what their net purchase is. You know, I wouldn't - I wouldn't assign any importance to it. It's just -it just a function of the weather, function-of demand conditions on their system.

Leslie Rich: OK. Thank you.

Operator: Our next question today will come from Howard Gleicher of Metropolitan West.

Howard Gleicher: Hi, thanks. I was just wondering on the - on the guidance that you've given, the quarter obviously was very good, and it's been good recently. You've indicated a couple of issues such as broadband dragging down some of the overall results, possibly corporate and other will stay that level, maybe it will come down over time. And yet guidance of \$1.80 this year, and then just a 20 percent increase for next year. Relative to current trends, are you just being very conservative, or do you see some things that were going on this year maybe in the power markets and the tremendous volumes we saw that were somewhat unusual due to maybe California or due to the volatility or due to some changes which may not be repeated in future years, so you're not, you know, anticipating that? Thanks.

Jeff Skilling: Yeah. I think - I think for this year, the \$1.80, that's a 22 percent increase on the prior year, and I think last year we did about 22 percent, so what we're saying for next year is we think we're going to be continuing at that kind of rate. And we think that that's doable, given what we see in the marketplace.

Now, physical volumes this year are up strongly. And I attribute that, quite frankly, more to Enron Online than to much of what was going on in California. And that was probably at a - at a higher rate than you'd expect to see long term, because we just introduced that platform. And it had a big impact on volumes in the wholesale business.

But I think what we're - what we're telling you, with the earnings guidance that we're giving, is that we believe that 22 percent this year looks very good, and we think we can continue that kind of growth rate next year. And it just, I think, gives you some sense for our confidence from what we're seeing. We think the business is very strong.

Howard Gleicher: But it actually does indicate a slowdown from the last couple of quarters, and I'm wondering where you're seeing that slowdown or where you are expecting it to come from on, you know, on the earnings per share basis?

Jeff Skilling: Well, I don't think we're - we're certainly not signaling any slowdown. I think what we're saying is that we expect the kind of strong growth that you've seen from Enron in the past will continue and - a, just to put this in perspective. I mean, we have met or exceeded earnings expectations for every quarter for the last four years and, you know, stock prices has gotten hurt over the last couple of months, I think, because of expectations about regulation, about what's going on in California. And I think what we're saying is look we continue to see very strong dynamics and fundamentals for our business, and we believe that we can perform at that level over time that stock price will come back.

One other - I'd like to make one other point that's related to this just so that the - while I have the platform and the time to do it. I really do think that the whole California thing is going to pass the high-water mark right now. What you're seeing is the expectation of higher retail prices in the marketplace. That's really dampened demand significantly; almost unprecedented amount of demand in clients in California.

That, combined with some, what looks to be cooler weather in California, I think we're going to get through the summer just fine in California, which I think ultimately will lead to lower wholesale prices per power. And in the grand scheme of things, I think that's just going to lower the whole tone and level of controversy in California. So I think we're past the high-water mark just in terms of the market dynamics.

From Enron's standpoint, if you look at what's going on in California right now, there's a lot of talk about these refunds, FERC looking at refunds. Just to give you an interesting statistic which we kind of like around here, if you look at the methodology that the ISO used to calculate the refunds in California, they're basically looking at the net sales, net purchases, off the system operator.

If we use that same methodology, or if they use that same methodology for Enron, in fact, the ISO owes us about \$44 million. So we're in a totally different league from some of the other players in California in terms of what our exposure is on an ongoing basis to any of the recriminations that are flying there.

So, you know, I think we're past the tough point here. And there will still be a lot of noise in California, a lot of screaming and yelling and all that. But in terms of the impact on Enron, financial impact on Enron, I think it's pretty much over now.

And so I think, going forward its, tend to look at the fundamental dynamics of the business, we continue to see strong movement toward deregulation in the wholesale market. There's evidence by the FERC's move yesterday that has very positive consequences for Enron. The European markets continue to be very, very strong for us. Our pipelines in Portland General continue to build out the earnings and income on a consistent predictable basis as they have in the past.

And the one area is the broadband business, and we now know exactly what we need to do in that business. There are two areas where we believe we have a strong competitive advantage. We're going to focus on those to the exclusion of all others, significantly reduce the burn rate there. And so I, we feel very good about the prospects for the business moving out in time. And that's why we provided the guidance for next year at 215 to say we believe, you know, 20 percent kind of growth rate is very comfortable for us. We feel very good about that in giving that guidance to our shareholders.

Howard Gleicher: Thanks for your comments.

Male: Thank you.

Operator: And our next question will come from Ben Morton of Salomon Smith Barney.

Ben Morton: Good morning. I guess just a follow-up on your most recent comments, search price caps in the west. Just wondering, sort of big picture what their effects have been and you expect them to be on both volatility and, I guess, just liquidity in those markets and how it pertains to Enron. Thanks.

Male: Well, Ben, I mean, any time you put on price caps you get unintended consequences, and we saw that last week in Nevada. I mean, it just messes up the market. I think, again, the entire price matrix is dropping in the West. It's dropping all over the country, in fact. So I think the impact of these price caps will become less and less important as time goes on. They're set to expire. And I think if prices do stay relatively low, if we get through the summer without a whole lot of noise, I think they will expire, and that's good.

But once they do expire, I think, you know, I think people are going to start recognizing the impact and power of markets in reducing costs to consumers, and I think we're back on track.

Ben Morton: I guess as a follow-up, is there an identifiable impact now of those price caps?

Skilling: Let me ask Steve Kean to tell you just where they apply and then ...

Ben Morton: Sure.

Steve Kean: Yeah, I think it's also important to note on the scope of the price caps are really focused on a relatively small portion of the market, at least from our standpoint. They're dealing with kind of a spot - the market that is defined by transactions done, you know, 24 hours or less in advance for a period of time, that's 24 hours or less. So they have a much more narrow application, particularly when you consider our broader business in the west.

And then, as Jeff pointed out, I mean, with prices overall going down, they do become less relevant, and what those price decreases and any decreases in volatility have not been a function of the price caps themselves, they've been a function of underlying supply and demand fundamentals, which has been kind of the whole story in California from the very beginning. I think that's beginning to come through too.

Ben Morton: OK, great. Thank you.

Operator: We'll move on to Annie Tsao with Alliance Capital.

Annie Tsao: Good morning, Jeff.

Jeffrey Skilling: Hi, Annie.

Annie Tsao: A couple of questions. In terms of your energy asset investments, and you say because of the increased validation, and also part of this is sales asked - sale of investment. Can you talk more detail in sales investments? Does that have to do with the part that you sell the peaking assets and you book a gain in here? Can you explain that more detail?

Jeffrey Skilling: Yeah, Annie, the peakers are just an integral part of the way we buy and sell power. The peakers are really just a long-term power contract in a lot of ways. That shows up in commodity sales and services. It's marked part of our matched portfolio of purchases and sales. The assets and investments, let me ask Mark Koenig - quite honest, I'm not that up to speed on that.

Mark Koenig: Yeah, yeah, Annie, assets and investments include several things. It includes - first of all, there's a core amount of equity earnings that come through from just the asset operations on the international assets that we have around the world, and that's probably a third of that number. We have some sell-downs of assets, some monetizations, that's in that number.

And then year over year, the bigger increase was we had better valuations on some of the securities in our portfolio that is primarily an energy merchant portfolio than we had a year ago. So, nothing out of the ordinary, but keep in mind a big chunk of that is just the core asset operating earnings.

Annie Tsao: And - OK. Secondly, how come in the second quarter of last year, your commodity sales and services number, and also energy - retail energy services numbers are different?

Mark Koenig: Well, we - again, this is Mark. If you remember at the start of the last quarter, the first quarter of this year, we restated between the wholesale and retail segments to separate the commodity management from retail into wholesale. And if you look at the footnotes...

Annie Tsao: Yes, yes.

Mark Koenig: ... on those schedules, you'll see that. We can talk to you offline and reconcile those numbers

Annie Tsao: OK.

Male: That's what we did, Annie. We just took the risk management functions and combined them because we just - we were trying to get some more efficiencies out of management of the overall risk management function. So we put together the retail and wholesale functions.

Annie Tsao: Thank you.

Jeffrey Skilling: Thank you.

Operator: Our next question today will come from Michael Weisberg of ING Asset Management.

Michael Weisberg: Again, just to understand what happened on broadband, the number of transactions went up, but the transactions were very short term in length, and therefore the profitability of the transactions declined dramatically?

Jeffrey Skilling: Yes, I think that's fair to say that just the revenue pie in broadband has shriveled.

Michael Weisberg: And therefore the big loss reflects the - your underlying costs base, because it seems as if the loss was a high level relative even to the decline in revenues.

Jeffrey Skilling: No, it's strictly a decline in revenues. We just had - the burn rate was at a consistent level to what it's been for

a while, and so the name of the game from here is we got to get the burn rate down. And we will get that burn rate down significantly over the next couple of weeks.

Michael Weisberg: OK. And your forward guidance, I guess, reflects a significant decline in the burn rate in this business, is that right?

Jeffrey Skilling: Yes, it does.

Michael Weisberg: Great. Thanks a lot.

Operator: And Bernard Austin with USAA Investment Management has our next question.

Bernard Austin: The question has been answered. Thank you.

Operator: Thank you. We'll move on to Barry Haimes with Sage Asset Management.

Barry Haimes: Good morning. Jeff, I have two questions. One is, the sale of the peakers, can you tell us how much capital that freed up? And then, more generally, where you stand on assets sales, is there any update there? And then secondly, you mentioned that the price deck in electricity is down. Can you give us any feel for what the market for secondary gas turbines is and what the pricing might be in that market? Thanks.

Jeffrey Skilling: Sure. Barry, it's about \$1 billion. On other asset sales, I mean, we continue to work very hard on moving some assets. We think - and I've been saying this for a while, so I'm sure I absolutely lost total credibility, but I think, over the next six to nine months, we will have some significant announcements to make. We are working very hard on moving some of these assets.

The last one on use or turbines, I really - I'm not - I'm really not up to speed on it, Barry. I can check into it, and I'll get back to you.

Barry Haimes: OK. Thanks.

Jeff Skilling: We'll take one more, and then I think we'll call it quits.

Operator: And our final question will come from Maura Shaughnessy with MSS Investment Management.

Maura Shaughnessy: Good morning. I was just wondering, I mean, with the onslaught of billion price caps in California and such, there was a lot of concern that the overall volatility, both in the natural gas markets and electric markets, will go down over time, and you addressed some of it with regard to California specifically. But can you talk about that, over the next year or two, what you see the drivers of volatility will be and, you know, its impact on Enron? Thanks.

Jeff Skilling: Sure, Maura. I mean, it's kind of hard to predict what volatility will be going out in time, but price caps, if anything, make things more volatile, in my opinion, because they delay the bringing on of new supply, they delay people reducing demand, so it keeps things on a knife edge for a longer period of time. So, I don't know - I mean, the markets this last couple of months have been amazing. I mean, you look at the radical decline in demand that we've seen in natural gas and power. Again, I just, I think it's unprecedented. Now, a lot of that is price-driven. Now, prices have dropped significantly. We're now below 70 percent on a BTU basis for natural gas, which means we'll probably going to bring back some chunk of industrial load that we lost over the last year. And so I think - my guess is that we're moving to an environment where customers and producers have become much, much more flexible in their use of fuels and their consumption habits and production habits. I don't know if that's going to lead to more volatility or less volatility.

(inaudible chatter)

Unidentified Male: ...with the increased interest in the business.

Jeff Skilling: Yeah, I think probably the one thing you can be absolutely certain of is that there's a much higher degree of interest in the business by all consumers. And we've seen that in our retail business.

One thing we did not mention yet is that, in our retail business, we focus, as you all know, almost exclusively on these long-term outsourcing contracts, and as we mentioned, we've had great performance thus far this year in the quarter in those contracts. But

we're seeing another thing happen that was really pretty unexpected, and that is there is a huge demand brewing right now for relatively simple commodity contracts for natural gas and electricity at the retail level.

And - I forget the exact numbers but we were talking about it on Monday. I think we executed 450 new contracts in the last week and a half that were essentially commodity contracts in the western U.S. It gives you some sense for how people are concerned about this, how people want direct access, and right now, we're the only player that can provide it to them. And so, whether volatility goes up or down, I'm not sure at this point. I think you can call it either way. But one thing is certain, and that is people are much, much more concerned about energy supplies, much, much more interested in managing those energy supplies. I think that really plays to Enron's strength right now. We're in a uniquely strong position to serve that need.

Maura Shaughnessy: Thanks.

Jeff Skilling: OK. With that, I guess we'll call it quits. Mark, you might want to give the information on the analysts meetings.

Mark Koenig: Yeah, we will not be back in New York for a couple of weeks. July 25 we'll be in New York, and in Houston on the 27th.

Jeff Skilling: So, we look forward to seeing everyone there then. Again, a great quarter for the company. We feel very good about the prospects for the company moving forward. And any other additional questions come up, please contact our investor relations people and we'll see if we can answer them for you. Thank you.

Operator: That concludes today's conference call. Thank you, everyone, for your participation.

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